Further Consolidation Anticipated in a Tight CE Market

(Continued from page 41)
both be hits, once the technology is established.

And, Hyman said, that could spur sales of some sort of HD-VCR and/or laser disc players. In other words, the "new VCR" the industry has searched for over the past three years might actually be on the horizon—and it could be a whole new round of improved definition VCR sales.

Other chains on an upward path have taken slightly different approaches. SaveMart has become in essence a manufacturers' showroom for a few selected brands, including Fisher, Zenith and Nintendo. By carrying a complete line (some products on an exclusive or semi-exclusive basis), SaveMart has maintained margins and, according to president John Kitzie, profits.

On the West Coast, The Good Guys have taken Northern California by storm by concentrating on upscale goods and top brand names. The chain also carries brands and products not available to most of its real and potential competitors.

Silo, which acquired most of The Federated Group stores from Atari Corp. in November, had until then pulled back from its aggressive expansion drive of 1987 to 1988. However, the acquisition brings Silo head-to-head with Circuit City in one of the nation's largest markets.

Filling in Markets

With those and a handful of other exceptions, 1989 was a grim year for CE chains. Comparable store sales were flat in rosier cases, and down significantly elsewhere. That was due, in part, to the industry-wide entrenchment that has led to chains filling in their existing markets with more units to forestall invasions by competitors. In turn, that has cannibalized same store sales, as new units pull customers away from established sites.

Margins have been under pressure in most categories. A resurgence of component audio and strong big screen television sales offset that erosion somewhat, but competition in high-volume products like conventional television, VCRs and portable audio has cut profits to the bone.

Also, the effect of Montgomery Ward's Electric Avenue superstores and Sears' Brand Central departments should not be overlooked. Each of these retailers has become, in effect, a CE chain larger than any existing one, including Circuit City. CE retailers have said that they don't really consider Sears and Ward competition, but both have become significant players, and Electric Avenue is as sharply priced as any CE superstore. Certainly, these two brand strategies have not helped the average chain.

Looking into 1990, CE retailers aren't optimistic. "It could be a difficult year," Newmark & Lewis' Hyman noted. Another retailer said he expects to see less growth and more consolidation in 1990, as chains build existing markets and raise comparable store sales figures.

The Winter Consumer Electronics Show will play a major role in determining what kind of year retailers can expect. Last year the show highlighted "improved" products; products with more features at slightly lower price points. And the consumer seemed to appreciate the bargains available out there.

This year that trend should continue, with value-added features like on-screen programming in VCRs, extra telephone lines in fax machines, more programmability in CD players and the like making those products more attractive to new users and replacement shoppers alike.

So does every household.

With new GE Audio Tapes to compliment GE Video Tapes, you've got instant consumer acceptance through the power of consumer brand recognition; one that stands for quality, reputation, trust and impact in household after household.

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Office Club Expects to Reach Profitability in 1990

(Continued from page 3)
nia, Colorado, Oregon, Washington, Arizona, New Mexico, Texas and Nevada).

Although the company has remained in the red each year, the losses have held relatively constant despite the new store openings. Helping to offset this capital drain has been a first time public offering conducted in the fall of 1988 and sales growth.

While the net loss in fiscal 1988 was $3.23 million, compared with a net loss of $2.28 million during the previous year, sales in 1988 jumped to $52.1 million vs. $10.9 million in 1987.

During the first nine months of fiscal '89 Office Club posted sales of $99.3 million, more than tripling the $32.7 million registered during the first three quarters of the previous year. The net loss, meanwhile, held fairly steady at $2.95 million, compared with a net loss of $2.28 million in the same period a year ago.

Now, however, the chain is set to leave the red ink behind and enter the black. President and ceo Mark Begelman said the company's store base is now large enough to support its added operational costs.

The base is also set to grow during 1990 by some 20 to 22 stores, primarily within the company's existing markets.

"It is well positioned, and the company has done a good job building its markets," said Salomon Brothers analyst Jack Seibald. "Office Club is different enough from most of the others . . . and they are much more targeted."

One of the first of its kind in many markets, Office Club has created its niche by focusing on just the top office supply sku's, similar to Price Club's approach to the membership warehouse club business. (Differentiation may be the key to surviving the expected shakeout in the office supply superstore industry. See *Home Office Merchandising*, cover story, page 29.)

According to Begelman, some 85 percent to 90 percent of the office supply business is done with only 600 items. So unlike some competitors—like Long Beach, Calif.-based HQ Office Supplies which stocks 8,000 sku's—Office Club offers just 2,000 sku's.

Unlike some of its competitors, Office Club maintains a membership policy, selling to non-members for 10 percent over the posted price. But, Begelman said the majority of the chain's shoppers are members. The chain offers a cash and carry membership for $10 a year. A Club Plus membership for $50 a year allows shoppers to call in orders, and obtain delivery and credit. The latter policy accounts for 12 percent of the membership base, but about 37 percent of the sales volume.

The product mix has been fine-tuned since the company's inception, with one of the key changes coming in its personal computer offering. Initially, Office Club stocked IBM computers, but because the chain was not an authorized dealer it could not offer customers adequate sales help or service, said Begelman. Additionally, since the computers were obtained through a middleman, Begelman said it was difficult to price them competitively.

So Office Club opted to pull personal computers and has just recently gone back into the category. This time, however, the company is now an authorized reseller of four Packard Bell systems. In addition to receiving employee training, Packard Bell also provides self-demonstration tapes for customer in-store use, a one-year guarantee and an all-inclusive, ready-to-use computer system.

Office Club has also adjusted its size, since first opening its Concord location. While this store, and ones opened soon after, were around 15,000 square feet, Begelman said the chain prototype is now around 22,000 square feet. The additional space allows for inventory to be stocked on the premises, a key to keeping the 97 percent in-stock level at the stores, Begelman said.

Another recent change at Office Club has been the addition of business services, such as incoming and outgoing fax service, business card and letterhead printing, overnight delivery drop off and copying. These added features have become an integral part of the operation of many office supply superstores.

Companies Recycle Plastic for Motor Oil Bottles

(Continued from page 3)
A shortage of the type of recycled plastic from milk jugs limits the amount of stock available to make the white bottles for Exxon and Valvoline. That shortage, along with Sonoco's caution about handling the new type of material, limits the content of recycled material to 15 percent.

Even at that, it will take Valvoline about two years to shift over completely.

The recycled plastic that goes into Texaco's black bottle is more plentiful. But Sonoco will need at least a year to convert all of Texaco's production to bottles that contain 25 percent recycled material.

Black bottles, such as Texaco uses, can be made of more plentiful, colored co-polymer plastics and tinted with carbon black. White bottles, such as Exxon and Valvoline use, can be made only of the kind of translucent plastic, or homo polymer, found in milk and juice jugs, and tinted with titanium oxide.

Texaco hit the market first, with shipments starting in early October, while Valvoline began shipping in recycled bottles Nov. 1 and Exxon during December.

Because the technology is new, Sonoco is taking a conservative approach toward recyled content, Prevot said.

Sonoco has tested black bottles that contain as much as 100 percent recycled plastic and white bottles with 50 percent recycled plastic. But Sonoco is concerned that bottles made with too much recycled plastic will be too weak and degrade over time.

Sonoco wants to gain experience before increasing recycled content, he said. It guarantees quality at contents of 15 percent for white and 25 percent for black, he said.

Shipments of Valvoline oil in recycled bottles will go out at random, a spokesman said.

For now, Valvoline has no plans to use recycling as a marketing edge, said Phillip Pruitt, vice president, supply and purchasing. The bottles carry no statement that they are made partially of recycled plastic.

But a couple of years down the road, when conversion is complete and the public can't mistake the move as tokenism, the use of recycled plastic could become important, he said.

"The environment is an important issue in the '90s," Pruitt said, and "Valvoline wants to be a mover."

Exxon bottles also carry no message that they are made of recycled materials, Prevot said. Texaco has taken the low-key approach, however, of printing on the back label a sentence that the bottle is made of recycled material "to protect the environment," Prevot said.

Refiners gain no price advantage by switching to recycled bottles, Prevot said.

They stand to benefit, however, if consumers perceive them as "environmentally correct," Prevot said, and refiners give them an environmental reason for buying their product.

"We are at the beginning of environmental conciousness on the part of consumers," Prevot said.

Mgmt. Development Series: Store Closures

(Continued from page 72)
there is an indication the store is beginning to meet its potential. On the other hand, if the store's potential is not realized as expected, the chain can stay with the scaled-down version and abandon the location at the end of its lease.

- **Strategic Location:** Many times the reason to stay in a particular location may not be based solely on economic logic. For example, the chain may keep a store open to maintain or enhance its visibility in a key retail market. Or, it may keep a store open to help keep the competition out.

3. Quantity Closing Costs. After the store's cost structure and real estate factors have been considered, the next step is understanding what it will actually cost to close a particular store. Some of the costs include:

- **Labor:** Costs directly related to the labor force may increase the cost of the chain's decision to close a store. Severance, for example, may be higher than estimated due to unemployment insurance and various local statutes that require payments in excess of the company's normal termination benefits.
- **De-identification and Storage:** The costs of obliterating the store's identifying marks—signage, architectural or other physical signature design—all add to the expense of closing, as do storage costs for those items that will not be used immediately by the chain.
- **Closeouts:** Knowing what the merchandise mix is in the chain's other stores is important in making an effective decision to liquidate merchandise or transfer it to another store.
- **Other Assets:** Deposits and other non-current assets such as pre-paid service contracts, pre-opening costs for newer stores, or equipment leases must also be considered.
- **Real Estate:** Rental costs until a subtenant can be found, leasing commissions, and appraisals can increase out-of-pocket costs.

The Bottom Line

Obviously, the decision to close a store or stores is not an easy one, since emotion often keeps this from being a strictly economic decision. The important thing to remember is that a decision will need to be made—and quickly—especially if a number of stores are involved.

Facing the decision to close forces management to challenge the chain's overall strategic merchandise plan and mission to ensure the survival of the company.

Houseware Manufacturers Brake Prices

(Continued from page 1)
a purchase rather than dig deeper into their tapped out pockets.

Nevertheless, vendors appear confident that housewares volume will grow during 1990. Many are projecting double-digit sales growth this year. Retailers, on the other hand, were more conservative in their sales estimates.

At this year's show, a number of manufacturers will be unveiling new products that were previously beyond their traditional scope as the term "single source vendor" becomes an industry buzzword for the '90s.

Examples include clock manufacturer, Burwood Industries' launch of servingware; tray table vendor Quaker Industries' debut of ready-to-assemble furniture; clock maker Chaney Instrument's new gift-oriented desk sets; and closet organizer vendor Whitney Production's new line of corrugated home office filing cabinets.

Despite the resignation of National Housewares Manufacturers Association president Jay Spaulding last year, the association has been far from rudderless. It recently announced plans to move its annual summer show from Chicago in July to Atlanta in September. The NHMA expects to name a successor to Spaulding by early spring, said Kimberly Rawn, director of communications.

At this winter show, both buyer and vendor registration figures and booth-count are up slightly from last year. An influx in the number of international buyers has more than offset the effect of retailer consolidation. Buyer attendance is expected to reach as high as 13,000, said Rawn.

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Bush, Compton Resign From Key Posts at Rose's

HENDERSON, N.C. — Rose's Stores president Jack Bush and senior vice president of operations Harold Compton resigned from the 256-store discount chain this month. Chairman Lucius Harvin has assumed their responsibilities and gave no indication on whether or not successors will be named.

Harvin, who was traveling and could not be reached by presstime, released a statement describing these resignations as a first step in reducing operating costs and reversing a downward trend in operating income.

Income for the nine months ended Oct. 26, 1989, plummeted to $1.8 million, or 82 percent from $9.9 million the previous year. Sales edged up 2.5 percent to just over $1 billion. While December sales were up 6.2 percent to $220 million,

Jack Bush

and comparable store sales rose 1.3 percent, Rose's is expected to report that earnings continued to nosedive during the holiday selling season.

Competition from discounters blanketing Roses' Southeastern market—especially Wal-Mart—has eroded the chain's profitability during the past three years. Wal-Mart

(Continued on page 54)

Red Ink Drowns Zayre; Urban Tack Still Afloat

SILVER SPRING, Md. — Plagued by declining sales at its 315 former Zayre stores, Ames has thrown in the towel on the once mighty Zayre name, converting all 61 of the "inner city" stores to the Ames moniker.

Late in November, the chain had premiered its new apparel-intensive urban format in this Washington, D.C., suburb. Despite the renaming, Ames will continue its experiment in marketing to urban audiences. The new format differs dramatically from both the old Zayre and the new parent Ames.

***Fashion will play a key role** in Ames' merchandising of ex-Zayre stores, such as this remodeled unit in Silver Springs, Md.* (DSN photo)

But according to Ames vp, merchandising Les Dietzmann, the final look of the old Zayre stores is still up in the air. "A lot of this will end up in the stores, but there will be more adjustments," he said.

This much is certain. The urban division has reassessed its customer base. Consequently, it has upgraded its stock, cut out product areas that don't apply to urban consumers, massed out most basic products, improved security and in-stock position, and cleaned up Zayre's disorganized stores.

The most obvious difference is a new racetrack configuration, designed by Columbus, Ohio-based Retail Planning Associates. The racetrack encircles three "pads" that house men's apparel, home fashions (soon to be moved to the rear of the store), and ladies' accessories.

Fashion is a key to the new look. Hard lines has been pared down to allow an expanded selection. Gold lamé skirts, $200 soft leather jackets (a test), animal pelt-look tops, furs and fur trims, leather accessories, embroidered hosiery and much more vie for attention in ladies', while men's features

(Continued on page 50)

Apparel Off-Pricers Benefit From Campeau Fiscal Woes

By Richard C. Halverson
Nationwide DSN Report

The financial woes of the Campeau department store empire have cut both ways within the off-price apparel sector.

As Campeau struggled to raise cash through heavy Christmas promotions, consumers became wary about shopping off-price chains, forcing T.J. Maxx, for instance, into its first ever Christmas promotions.

And the heavily promotional department store environment that Campeau touched off prompted Marshalls to tighten its reins on inventory buying when it sensed that consumers were holding back on shopping at off-pricers because of price slashing at department stores.

At the same time, vendors were offering extra quantities of merchandise—including labels never before available—at especially sharp prices because they were worried about getting paid from Campeau.

Now that Campeau has filed Chapter 11, one of the big questions hanging over the off-price apparel sector is whether those merchandise bargains will continue to be available. Vendors are more assured of getting paid now that a bankruptcy court is approving how Campeau, which changed its name to Federated Stores, is handling its cash.

"Consumers held back" on shopping at Marshalls because of the promotions at department stores," said Stanley P. Goldstein, chairman and ceo of its parent, Melville Corp.

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Jordache to Convert Heck's Into Closeouter

NEW YORK — Another venerable name in discounting—Heck's—is going down in flames, while an as yet unnamed closeout chain stands ready to rise from its ashes.

Jordache Enterprises, New York, this month signed a tentative agreement to begin managing and eventually acquire all the retail operations of Heck's, Nitro, W. Va.

Jordache plans to convert the 55 surviving Heck's stores into closeout units patterned after Schottenstein Stores, Columbus, Ohio, said Jordache president Avi Nakash.

Jordache may also reopen at least five units that Heck's had earlier closed, said Nakash.

Jordache intends to shift the product mix to 70 percent soft lines from a predominately hard lines mix. About 20 percent of the apparel would be Jordache-labeled goods.

If the deal goes through, Jordache would be the second apparel manufacturer in a year to buy a troubled retail chain. Last January, the Dabah family that owns Gitano bought The Children's Place from Campeau Corporation.

(Continued on page 20)

***Jordache plans to convert** the 55 surviving Heck's stores into closeout units patterned after Schottenstein Stores.* (DSN photo)

MARKETWATCH

Sam Walton Treated for Bone Cancer

BENTONVILLE, Ark. — Wal-Mart chairman and founder Sam Walton revealed to employees that he has a form of bone cancer called multiple myeloma and has undergone chemotherapy and radiation treatment at the M.D. Anderson Cancer Center in Houston. Six years ago the center treated Walton for hairy cell leukemia, which went into remission. "Along with Mr. Sam's doctors, we are encouraged that because of early detection and treatment, full recovery is expected. The doctors tell him that it is fully treatable," said spokesman Don Shinkle said.

D-H Names Watson To Succeed Allbright

MINNEAPOLIS — Dayton Hudson Corp. named Stephen E. Watson as president to succeed Bruce G. Allbright, who retires Jan. 31. Watson, 45, was executive vice president of the corporation and chairman and ceo of the Dayton Hudson Department Store Co.

Pace Sets Buffalo Unit as March Debut

AURORA, Colo. — Pace will open its first membership warehouse in New York state in early March. The 114,613-square-foot store will debut in the Union Consumer Square Shopping Center in the Buffalo suburb of Cheektowaga. The move is part of Pace's plan to aggressively expand in the Northeast and make the region a major new market for the K mart-owned 47-unit chain.

BizMart Expands Into Utah, Nevada

ARLINGTON, Texas — BizMart, expanding its Southwest/Rocky Mountain States base, entered Nevada this month, opening a store in Las Vegas. This follows its earlier debut of the first of two units in Salt Lake City, Utah.

JCPenney Signs Two Videotex Services

DALLAS — JCPenney has plunged further into electronic retailing by signing on with two interactive computer videotex services, CompuServe and U.S. Videotel, to sell goods from its catalog. JCPenney already is on Prodigy's interactive computer service and runs the JCPenney Television Shopping Channel.

International Jaycees Honors Kilian

BIRMINGHAM, England — Junior Chamber International has presented its Outstanding Young Persons of the World Award to Gerald W. Kilian, 37, manager of the K mart in Sycamore, Ill., for his ongoing efforts on behalf of needy children in the United States. Kilian was also recognized by the U.S. Jaycees in 1988 as one of the Ten Outstanding Young Americans for his charitable efforts.

IRS Probes Service Merchandise Officers

NASHVILLE, Tenn. — The Internal Revenue Service is engaged in a tax fraud investigation of two Service Merchandise executives, Howard Levy, executive vp and a director, and George Foy, group vp, loss prevention/administration. The cataloger said the IRS had subpoenaed certain company records but that neither the firm nor any other officers were targets of the investigation. "A special committee of the company's board is conducting its own investigation into the matters which are the subject of the subpoena," the firm said.

Auto Giant Sets February Debut

LONG BEACH, Calif. — Although originally projected to open last November, Auto Giant is now set to open its first warehouse-style 46,000-square-foot auto parts store Feb. 8 in San Bernardino, Calif. The company will offer both wholesalers and consumers over 10,000 sku's.

FOR THE RECORD

Wal-Mart plans to open its first discount stores in the Northeast this year in Pennsylvania. A story in *DSN's* Jan. 8, 1990, issue incorrectly stated that the stores were already open.

Antonini Urges Greater Investment In Minority-Controlled Businesses

'Through involvement, both nationally and locally, we're realizing that tremendous benefits go to the communities of these minority business.'

KANSAS CITY, Mo. — K mart has invested $1 million to help create business opportunities for minority firms.

At a meeting here earlier this month, K mart chairman Joseph E. Antonini told the Kansas City Supplier Development Council and the Chamber of Commerce of Greater Kansas City that through the third quarter of 1989, K mart spent nearly $500 million purchasing store merchandise and expense items such as supplies, printing and construction, from minority businesses, 16 percent more than in 1988.

He said that K mart uses over 500 minority suppliers. These firms are owned by blacks, Hispanics, Asians, American Indians and women.

"Through involvement, both nationally and locally, we're realizing that tremendous benefits go to the communities of these minority businesses," said Antonini.

K mart joined the National Minority Supplier Development Council in 1985. Antonini became chairman of the council in November 1988. Since Antonini's involvement, $1 million in contributions have been made to the group's Business Consortium Fund.

Antonini's speech centered on the importance of including and encouraging minority business involvement in corporate America.

Cultural diversity, said Antonini, is necessary for K mart and other companies. Antonini said the council's computerized data base of over 15,000 minority firms provides a "powerful network" of information. He said K mart has found the network helpful in making supplier decisions by informing the user about what minority firms are available, their type of business and where they are located.

Rurka Appointed to Head TRU's European Division

PARAMUS, N.J. — Looking ahead to the elimination of Common Market trade barriers in 1992, Toys "R" Us has created a new position, president of TRU, Europe, and appointed David Rurka to the position.

Rurka will retain his position as head of TRU in the United Kingdom.

TRU, which operates 74 international toy stores, plans eventually to open stores in all European countries, said chairman and chief executive officer Charles Lazarus.

Over the next three years, TRU plans to enter Italy, Spain, Belgium, the Netherlands as well as Luxembourg.

"Developments in Europe leading to the consolidation of the European economic community in 1992 present both challenges and unique opportunities to focus our strategy and resources on a truly pan-European basis," he said.

TRU now operates 27 international stores in Canada, 23 in the United Kingdom, 13 in West Germany, five in France, two each in Singapore and Malaysia and one each in Hong Kong and Taiwan.

In the United States, it operates 404 toy stores and 137 Kids "R" Us children's clothing stores.

Sears Stands Firmly Behind EDLP Policy

CHICAGO — Sears is standing firm with its everyday low pricing policy and has no plans to back away from it, a company spokeswoman said.

In fact, Sears remains quite committed to EDLP, advertising everyday low prices and promoting such concepts as name brand merchandise and customer satisfaction.

The giant retailer has *(Continued on page 54)*

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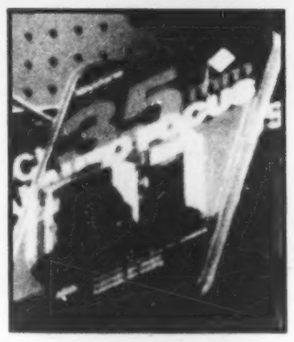

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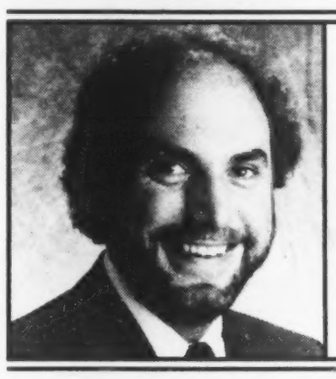
EDITORIAL

A Fateful Point for Leading Discounters

Well, I never did make it to Long Beach to interview Robert McNulty, the well-known—sometimes criticized, sometimes applauded—retail entrepreneur. In fact, I never made it to *DSN's* Los Angeles office to meet with associate editor Pam Meek either.

Following a busy schedule at the Consumer Electronics Show in Las Vegas, I flew into Los Angeles, rented a car and stopped to have lunch. I was excited about meeting McNulty, founder of HomeClub, SportsClub, and most recently HQ Office Supplies Warehouse, one of the newer entries into the booming office supply megastore segment. I had heard a lot about him—his flashiness, his creativity, his outspokenness—and I was looking forward to discussing retail trends with him.



TONY LISANTI
Editor

Following lunch, the valet parking attendant brought my car to the restaurant's entranceway and opened the door for me. I got in the car, put on my seat belt, and put the car into drive when it took off like a 747. The brakes wouldn't respond and the next thing I knew I was thrust onto busy La Cienega Blvd. swerving to avoid hitting other vehicles and crashing into a pole. I was injured, but I was lucky.

So instead of spending a warm and sunny winter day in Long Beach with McNulty discussing HQ and the office supply segment, I was at Cedars Sinai Hospital. That's fate, and as the saying goes, "---- happens!"

And certainly a lot of it is happening in discount retailing. While I was recuperating, I thought about the fate of several retailers in 1990. Here's a summary of some of the top retailers who face a critical point in their existence during the coming year. It's time for these retailers to get it together.

- Sears. So what's it going to be: EDLP, sales, promotional prices, special purchases or all of the above? Will the venerable retailer continue to struggle or regain its old luster?
- K mart. The pressure is on—plain and simple—to boost earnings. Sales have been disappointing and analysts are wondering why? Are PACE and other specialty concepts steering the company away from its core business?
- Wal-Mart. Big bicoastal expansion plans into new markets (California and Pennsylvania). Will this be the kryptonite that finally weakens this superpower and breaks its streak of double-digit sales and profit gains? Will problems of other retailers tempt the Bentonville, Ark., brain trust into an acquisition that will give it instant penetration in the Northeast?
- Target. Quietly performing and becoming a merchandising innovator "across the USA," the chain is still sparkling as Dayton-Hudson's jewel, but it is undecided about its pricing and its growth strategy. Will it be EDLP or not? What region will it be for aggressive expansion? Will the temptation of entering the competitive Northeast overshadow growth elsewhere?
- Ames. Zayre or not, the name is not the problem, but performance is. It's time to get it together, because stockholders are running out of patience. Will things fall into place as predicted or are more changes inevitable?
- Hills. The Gold Circle stores are still being digested. Will it cause a severe case of heartburn? Are more drastic changes such as the acceptance of credit cards on the drawing board?
- Caldor. Now May-less, everyone's watching. Will remodeled stores and other operational changes give the regoinal chain a new lease on life?

And what's happening in the office supply segment? Is the predicted shakeout going to happen in 1990? This was among the questions I planned to ask HQ's McNulty last week. But I'll still have the chance and report back in a future column.

It's evident that 1990 will be a turbulent year. And more and more people are watching with great concern.

BUYERS & SELLERS

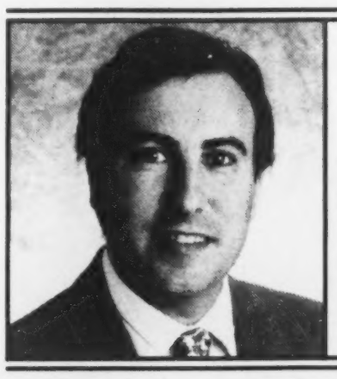
The 1990s Will Demand Greater Cooperation

It's still January, so I guess it's O.K. for me to add one more "Retailing in the 1990s" commentary to the hundreds of such prognostications you've been reading about since a few weeks before the beginning for the new decade.

Here are some of the dynamics shaping the future of the retailer-vendor relationship.

Increasing complexity in buying/replenishment decisions: A typical retail chain with 100 stores, each with 30,000 sku's, getting about six turns annually on its merchandise must make a mind-boggling 18 million replenishment decisions yearly at the store. That's the estimate of Otto Becker, a partner and managing director of management consulting for Ernst & Young, one of the Big 6 accounting firms (formerly the Big 8—so you can see that consolidation is not confined to the retail industry).

Now, compound that 18 million figure by the introduction during the year of new items and you have an exponential growth in decision-making tasks. Then, if retailers begin to tailor the merchandise assortments for individual stores in specific markets, that multiplies the decision-making requirements even further.



DON LONGO
Exec Editor

With this in mind, I'm sure retail buyers of the future will not only have to be better trained, but they must have the vision to see how all those complex buying decisions fit into the overall mission of the retail company.

Increasing vendor sophistication in selling to the mass market: By the same token, vendors will have to better understand the differences between Sears, Ward, K mart, Target, Wal-Mart, Stuarts, Jamesway, and Price Club if they hope to be successful in the '90s.

More technological efficiencies: It's a given that technology will improve in the '90s. But, the retailers and suppliers who will benefit the most will be those who make an everyday commitment to lowering costs through operational improvements. Investing in technology is not buying a new mainframe or a new software package. It's having the commitment to continually question and refine your methods of operations.

Dexterity and speed, always crucial elements in the success of a retailer, will become even more critical in the 1990s. Retailers will also use new technology such as artificial intelligence to tailor their product assortments to individual markets. At E&Y's recent press briefing, Becker pointed out that by doing focused analysis of demographics and actual sales results, the retailer will be able to develop customized products and assortments for his stores.

Merchandise pipeline visibility: The retailer needs to know status of his inventory at every stage of its trek to his stores. Wal-Mart's example of tracking its truck fleet via satellite is a leading-edge example of this need.

Strategic partnerships will become ever more important: "In the relationship between the retailer and his supplier, the adversarial mode days are dwindling, if not gone. The dependencies are increasing. In the development of strategic partnerships retailers will have a say in product design," said Becker. "For example, two of the most dominant retailers in their businesses, The Limited and Wal-Mart, have a hand in product design. It's a market-driven need."

The danger I foresee is when Wal-Mart or some other giant retailer has such a hand in product development that it dominates the resources of its individual suppliers to such an extent that that supplier can only serve Wal-Mart. In effect, the manufacturer, especially if it is a relatively small vendor, is too dependent on one customer and completely vulnerable to that single account.

One supplier told me that many retailers refuse to deal with some suppliers of Wal-Mart because they don't feel they can get equal treatment, and are thus at a competitive disadvantage.

The thaw in the Cold War between retailers and vendors should be a positive development for the entire industry. But, it also presents new challenges for manufacturers.

There's an old adage that "Retailing takes no prisoners." If that's true, suppliers will have to be extra careful in the years ahead to avoid becoming captives of their retail customers.

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